

CREATIVE TECHNOLOGY LTD

THIRD QUARTER ENDED 31 MARCH 2016 FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

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UNAUDITED RESULTS FOR THE THIRD QUARTER ENDED 31 MARCH 2016

1 CONSOLIDATED INCOME STATEMENT

	GROUP			GROUP		
	Three months ended			Nine months ended		
	2016	2015	% change	2016	2015	% change
US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)	
Sales, net	18,459	22,729	(19)	67,472	78,325	(14)
Cost of goods sold	(13,224)	(16,219)	(18)	(49,408)	(55,785)	(11)
Gross profit	5,235	6,510	(20)	18,064	22,540	(20)
Expenses:						
Selling, general and administrative	(8,491)	(8,932)	(5)	(30,706)	(25,768)	19
Research and development	(2,946)	(4,721)	(38)	(12,022)	(14,807)	(19)
Total expenses	(11,437)	(13,653)	(16)	(42,728)	(40,575)	5
Other income	113	90	n.m.	260	178	n.m.
Other gains	14,015	1,848	n.m.	36,240	2,280	n.m.
Other losses	(322)	(6,500)	n.m.	(1,068)	(15,126)	n.m.
Share of loss of associated companies	(347)	--	n.m.	(347)	--	n.m.
Profit (loss) before income tax	7,257	(11,705)	n.m.	10,421	(30,703)	n.m.
Income tax (expense) credit	(3,180)	18	n.m.	(8,245)	(30)	n.m.
Net profit (loss)	4,077	(11,687)	n.m.	2,176	(30,733)	(107)
Attributable to:						
Equity holders of the Company	4,043	(11,706)	n.m.	2,085	(30,733)	(107)
Non-controlling interests	34	19	79	91	--	n.m.
Earnings (loss) per share attributable to equity holders of the Company						
- Basic (US\$ per share)	0.06	(0.17)	n.m.	0.03	(0.44)	n.m.
- Diluted (US\$ per share)	0.06	(0.17)	n.m.	0.03	(0.44)	n.m.

n.m. – not meaningful

1(a) Net profit (loss) is arrived at after accounting for:

	Three months ended			Nine months ended		
	31 March			31 March		
	2016	2015	% change	2016	2015	% change
	US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)
Write-off/write-down for inventory obsolescence	(246)	(214)	15	(568)	(604)	(6)
Impairment loss on investments	(318)	(258)	23	(781)	(1,234)	(37)
Gain on disposal of investments	1	1,845	(100)	2,723	1,845	48
Foreign exchange gain (loss)	1,501	(6,242)	n.m.	(287)	(13,891)	(98)
Litigation settlement	12,500	-	n.m.	33,500	-	n.m.

2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP			GROUP		
	Three months ended			Nine months ended		
	31 March			31 March		
	2016	2015	% change	2016	2015	% change
	US\$'000	US\$'000	+ / (-)	US\$'000	US\$'000	+ / (-)
Net profit (loss)	4,077	(11,687)	n.m.	2,176	(30,733)	n.m.
Other comprehensive income:						
Fair value (losses) gains of financial assets, available-for-sale:						
Fair value (losses) gains	(1,305)	(72)	n.m.	(4,801)	6,027	n.m.
Reclassification	-	(1,938)	(100)	(2,722)	(2,589)	5
Total comprehensive income (loss) for the period	<u>2,772</u>	<u>(13,697)</u>	n.m.	<u>(5,347)</u>	<u>(27,295)</u>	(80)
Attributable to:						
Shareholders of the Company	2,738	(13,716)	n.m.	(5,438)	(27,295)	(80)
Non-controlling interests	34	19	79	91	-	n.m.
Total comprehensive income (loss) for the period	<u>2,772</u>	<u>(13,697)</u>	n.m.	<u>(5,347)</u>	<u>(27,295)</u>	(80)

3 BALANCE SHEETS

	Group		Company	
	31 March 2016 US\$'000	30 June 2015 US\$'000	31 March 2016 US\$'000	30 June 2015 US\$'000
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	96,759	99,668	91,213	97,373
Trade receivables	7,924	9,782	175	4,290
Amounts due from subsidiaries	-	-	40,194	31,735
Inventories	25,179	28,879	2,695	15,939
Other current assets	3,646	1,320	2,417	422
	133,508	139,649	136,694	149,759
Non-current assets:				
Financial assets, available-for-sale	10,343	18,239	-	-
Amounts due from subsidiaries	-	-	129,306	145,344
Investments in subsidiaries	-	-	25,453	25,453
Property and equipment	996	1,361	195	369
Other non-current assets	186	88	-	-
	11,525	19,688	154,954	171,166
Total assets	145,033	159,337	291,648	320,925
<u>LIABILITIES</u>				
Current liabilities:				
Trade payables	9,323	15,639	857	10,409
Amounts due to subsidiaries	-	-	9,277	12,060
Accrued liabilities and provisions	28,588	31,445	16,774	20,451
Current income tax liabilities	652	643	-	-
	38,563	47,727	26,908	42,920
Non-current liabilities:				
Amounts due to subsidiaries	-	-	30,162	27,507
Deferred income tax liabilities	10,302	9,902	-	-
	10,302	9,902	30,162	27,507
Total liabilities	48,865	57,629	57,070	70,427
NET ASSETS	96,168	101,708	234,578	250,498
<u>EQUITY</u>				
Share capital	266,753	266,753	266,753	266,753
Treasury shares	(16,262)	(16,262)	(16,262)	(16,262)
Fair value reserve	4,781	12,304	-	-
Other reserves	62,364	62,562	34,900	35,098
Accumulated losses	(221,757)	(223,847)	(50,813)	(35,091)
	95,879	101,510	234,578	250,498
Non-controlling interests	289	198	-	-
Total equity	96,168	101,708	234,578	250,498

4 CONSOLIDATED STATEMENTS OF CASH FLOWS

	GROUP	
	Nine months ended 31 March	
	2016	2015
	US\$'000	US\$'000
Cash flows from operating activities:		
Net profit (loss)	2,176	(30,733)
Adjustments for:		
Income tax expense	8,245	30
Depreciation of property and equipment	394	529
Employee share-based expenses	(198)	(8)
Share of loss of associated companies	347	--
Gain on disposal of property and equipment	--	(392)
Impairment loss of financial assets, available-for-sale	781	1,234
Gain on disposal of financial assets, available-for-sale	(2,723)	(1,845)
Currency translation loss	595	12,912
Interest income	(260)	(178)
	<u>9,357</u>	<u>(18,451)</u>
Changes in working capital, net of effects from acquisition and disposal of subsidiaries		
Trade receivables	1,858	(268)
Inventories	3,700	1,074
Other assets and receivables	(2,750)	176
Trade payables	(6,316)	447
Accrued liabilities and provisions	(2,857)	(5,430)
Cash used in operations	<u>2,992</u>	<u>(22,452)</u>
Interest received	239	179
Income tax paid	(7,844)	(31)
Net cash used in operating activities	<u>(4,613)</u>	<u>(22,304)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(34)	(89)
Proceeds from sale of property and equipment	5	4,884
Proceeds from sale of financial assets, available-for-sale	2,815	3,086
Purchase of financial assets, available-for-sale	(500)	(1,750)
Net cash provided by investing activities	<u>2,286</u>	<u>6,131</u>
Cash flows from financing activities:		
Dividends paid to equity holders of the Company	--	(2,752)
Unclaimed dividends	5	--
Net cash provided by (used in) financing activities	<u>5</u>	<u>(2,752)</u>
Net decrease in cash and cash equivalents	<u>(2,322)</u>	<u>(18,925)</u>
Cash and cash equivalents at beginning of financial year	99,668	124,638
Effects of currency translation on cash and cash equivalents	(587)	(13,024)
Cash and cash equivalents at end of the period	<u>96,759</u>	<u>92,689</u>

5 STATEMENTS OF CHANGES IN EQUITY

5(a) Statements of Changes in Equity for the Group

	Share Capital US\$'000	Treasury Shares US\$'000	Fair Value Reserve US\$'000	Other Reserves US\$'000	Accumulated Losses US\$'000	Total US\$'000	Non- controlling Interests US\$'000	Total Equity US\$'000
FY2016								
Balance at 1 July 2015	266,753	(16,262)	12,304	62,562	(223,847)	101,510	198	101,708
Profit for the period	-	-	-	-	2,085	2,085	91	2,176
Other comprehensive loss for the period	-	-	(7,523)	-	-	(7,523)	-	(7,523)
Total comprehensive loss (income) for the period	-	-	(7,523)	-	2,085	(5,438)	91	(5,347)
Employee share-based expense	-	-	-	(198)	-	(198)	-	(198)
Unclaimed dividends	-	-	-	-	5	5	-	5
Total transactions with owners, recognised directly in equity	-	-	-	(198)	5	(193)	-	(193)
Balance at 31 March 2016	266,753	(16,262)	4,781	62,364	(221,757)	95,879	289	96,168
FY2015								
Balance at 1 July 2014	266,753	(16,262)	9,896	62,570	(187,695)	135,262	205	135,467
Loss for the period	-	-	-	-	(30,733)	(30,733)	-	(30,733)
Other comprehensive income for the period	-	-	3,438	-	-	3,438	-	3,438
Total comprehensive income (loss) for the period	-	-	3,438	-	(30,733)	(27,295)	-	(27,295)
Employee share-based expense	-	-	-	(8)	-	(8)	-	(8)
Liquidation of subsidiary	-	-	-	-	-	-	(16)	(16)
Dividends paid	-	-	-	-	(2,752)	(2,752)	-	(2,752)
Total transactions with owners, recognised directly in equity	-	-	-	(8)	(2,752)	(2,760)	(16)	(2,776)
Balance at 31 March 2015	266,753	(16,262)	13,334	62,562	(221,180)	105,207	189	105,396

5(b) Statements of Changes in Equity of the Company

	Share Capital US\$'000	Treasury Shares US\$'000	Other Reserves US\$'000	Accumulated Losses US\$'000	Total Equity US\$'000
FY2016					
Balance at 1 July 2015	266,753	(16,262)	35,098	(35,091)	250,498
Employee share-based expense	-	-	(198)	-	(198)
Unclaimed dividends	-	-	-	5	5
Total comprehensive loss for the period	-	-	-	(15,727)	(15,727)
Balance at 31 March 2016	266,753	(16,262)	34,900	(50,813)	234,578
FY2015					
Balance at 1 July 2014	266,753	(16,262)	35,106	4,402	289,999
Employee share-based expense	-	-	(8)	-	(8)
Dividends paid	-	-	-	(2,752)	(2,752)
Total comprehensive loss for the period	-	-	-	(27,991)	(27,991)
Balance at 31 March 2015	266,753	(16,262)	35,098	(26,341)	259,248

5(c) CHANGES IN THE COMPANY'S SHARE CAPITAL

Issued and paid up capital

As at 31 March 2016, the Company's issued and paid up capital excluding treasury shares comprises 70,331,649 (30 June 2015: 70,331,649) ordinary shares.

As at 31 March 2016, the Company's issued and paid up share capital was US\$266.8 million (31 December 2015: US\$266.8 million).

Employee share options plan

During the third quarter of FY2016, the Company did not issue any ordinary shares for cash upon the exercise of the options under the Company's Share Options Plan (Q3 FY2015: Nil).

As at 31 March 2016, there were 1,102,000 (31 March 2015: 2,124,500) unissued ordinary shares under options granted to eligible employees and directors under the Company's Employee Share Options Plan.

Employee performance share plan

During the third quarter of FY2016, the Company did not issue any ordinary shares pursuant to the Employee Performance Share Plan to eligible employees and directors of the Company and its subsidiaries (Q3 FY2015: Nil).

As at 31 March 2016, there were 231,000 (31 March 2015: 285,000) unissued ordinary shares granted to eligible employees and directors under the Company's Employee Performance Share Plan.

Treasury shares

As at 31 March 2016, the Company held 4,668,351 (31 March 2015: 4,668,351) treasury shares against 70,331,649 (31 March 2015: 70,331,649) issued ordinary shares excluding treasury shares.

The movement of treasury shares for the period is as follows:

	Three months ended	
	31 March	
	2016	2015
Balance at beginning of period	4,668,351	4,668,351
Issue for Employee Performance Share Plan	-	-
Balance at end of period	<u>4,668,351</u>	<u>4,668,351</u>

6 GROUP BORROWINGS

	GROUP	
	31 March 2016 US\$'000	30 June 2015 US\$'000
Amount repayable:		
<u>In one year or less, or on demand</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
<u>After one year</u>		
Secured	-	-
Unsecured	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Total	<hr/>	<hr/>
	-	-

7 NET ASSET VALUE

	GROUP		COMPANY	
	31 March 2016 US\$	30 June 2015 US\$	31 March 2016 US\$	30 June 2015 US\$
Net asset value per ordinary share based on issued capital at the end of the period / financial year	1.37	1.45	3.34	3.56

8 AUDIT

The figures have not been audited or reviewed by our auditors.

9 AUDITORS' REPORT

Not applicable.

10 ACCOUNTING POLICIES

Except as disclosed in Item 11 below, the Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 30 June 2015.

11 CHANGES IN ACCOUNTING POLICIES

None.

12 REVIEW OF GROUP PERFORMANCE

CONSOLIDATED INCOME STATEMENT

Net Sales

Net sales for the third quarter of FY2016 decreased by 19% compared to the same quarter in FY2015, and net sales for the cumulative nine months ended 31 March 2016 decreased by 14% compared to the same period in FY2015. Revenue in the third quarter and cumulative nine months ended 31 March 2016 was lower due to the uncertain and difficult market conditions which continued to affect the sales of the Group's products.

Gross Profit

Gross profit margin was 28% in the third quarter of FY2016 compared to 29% in the third quarter of FY2015. For the cumulative nine months period of FY2016, gross profit margin was 27% compared to 29% in the same period in FY2015. Gross profit margin in the third quarter and cumulative nine months period of FY2016 was in line with the sales mix.

Net Profit

Net profit for the third quarter of FY2016 was US\$4.1 million compared to a net loss of US\$11.7 million in the third quarter of FY2015. Net profit in the third quarter of FY2016 included other gains of US\$14.0 million, other losses of US\$0.3 million, share of loss of associated companies of US\$0.3 million and income tax expense of US\$3.2 million. Net loss in the third quarter of FY2015 included other gains of US\$1.8 million and other losses of US\$6.5 million.

Net profit for the cumulative nine months period of 2016 was US\$2.2 million compared to net loss of US\$30.7 million in the cumulative nine months period of FY2015. Net profit in the cumulative nine months period of FY2016 included employee severance charges of US\$4.1 million in the first quarter of FY2016, other gains of US\$36.2 million, other losses of US\$1.1 million, share of loss of associated companies of US\$0.3 million and income tax expense of US\$8.2 million. Net loss in the cumulative nine months period of FY2015 included other gains of US\$2.3 million and other losses of US\$15.1 million.

Selling, general and administrative expenses in the third quarter of FY2016 decreased by 5% compared to the third quarter of FY2015. For the cumulative nine months period of FY2016, selling, general and administrative expenses increased by 19% compared to the same period in the corresponding year. Excluding employee severance charges in the first quarter of FY2016, selling, general and administrative expenses for cumulative nine months period of FY2016 increased by 14% compared to the same period in the corresponding year. The increase in selling, general and administrative expenses for the cumulative nine months period of FY2016 was due mainly to an increase in legal expenses for on-going litigation.

Research and development expenses in the third quarter and cumulative nine months period of FY2016 decreased by 38% and 19%, respectively, compared to the same periods in the corresponding year. Excluding employee severance charges in the first quarter of FY2016, research and development expenses in the cumulative nine months period of FY2016 decreased by 34% compared to the same period in the corresponding year. The decrease in research and development expenses was due mainly to cost cutting actions taken by management.

Other gains of US\$14.0 million in the third quarter of FY2016 were due mainly to US\$1.5 million foreign exchange gain and US\$12.5 million from settlement in a patent lawsuit. Other gains of US\$36.2 million for the cumulative nine months period of FY2016 were due mainly to US\$2.7 million gain on disposal of investments and US\$33.5 million from settlements in patent lawsuit. Other gains of US\$1.8 million in the third quarter of FY2015 was due to gain on disposal of investments. Other gains of US\$2.3 million for cumulative nine months period of FY2015 was due mainly to US\$1.8 million gain on disposal of investments and US\$0.4 million gain on disposal of a property owned by a subsidiary in Ireland.

Other losses of US\$0.3 million in the third quarter of FY2016 were due mainly to impairment loss on investments. Other losses of US\$1.1 million in the cumulative nine months period of FY2016 were due mainly to US\$0.8 million impairment loss on investments and US\$0.3 million foreign exchange loss. Other losses of US\$6.5 million in the third quarter of FY2015 were due mainly to foreign exchange loss. Other losses of US\$15.1 million in the cumulative nine months of FY2015 were due mainly to foreign exchange loss of US\$13.9 million and impairment loss on investments of US\$1.2 million.

The functional currency of the Company and its subsidiaries is predominantly the US dollar and accordingly, gains and losses resulting from the translation of monetary assets and liabilities denominated in currencies other than the US dollar are reflected in the determination of net profit (loss). The exchange differences were due mainly to the cash and cash equivalent balances held by the Group. Cash and cash equivalents were held mainly in US dollar, with the balance mainly in Singapore dollar, Euro, British Pound and Japanese Yen. The exchange gain in the third quarter of FY2016 was due mainly to the appreciation of Singapore dollar, Euro and Japanese Yen against the US dollar. The exchange loss in the cumulative nine months period of FY2016 was due mainly to depreciation of Singapore dollar against the US dollar in the first quarter of FY2016. The exchange loss in the third quarter of FY2015 was due mainly to depreciation of Singapore dollar, Euro and British Pound against the US dollar, and the exchange loss in the cumulative nine months period of FY2015 was due mainly to depreciation of Singapore dollar, Euro, British Pound and Japanese Yen against the US dollar.

Income tax expense of US\$3.2 million and US\$8.2 million in the third quarter and cumulative nine months period of FY2016 was due mainly to US\$0.4 million adjustment to the Group's provision for transfer pricing and withholding tax exposure of foreign subsidiaries, and US\$2.8 million and US\$7.8 million withholding tax payment pertaining to patent lawsuit settlements in the third quarter and cumulative nine months period of FY2016.

BALANCE SHEETS

The decrease in cash and cash equivalents was due mainly to net cash used in operating activities (see below). The decrease in trade receivables and inventories was in line with the lower level of sales. The increase in other current assets was due mainly to advance payment to vendors. The decrease in financial assets available-for-sale was due mainly to disposal of investments and fair value loss in revaluation of investments. Trade payables at March 2016 was lower compared to June 2015. The higher trade payables as at June 2015 was due mainly to a payment cycle crossing over year end closing on 26 June 2015. The decrease in accrued liabilities and provisions was due mainly to lower level of operating activities.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Net cash used in operating activities of US\$4.6 million in the cumulative nine months period of FY2016 (cumulative nine months period of FY2015: US\$22.3 million) was due mainly to withholding tax payment and lower trade payables, partially offset by profit before tax.

Net cash provided by investing activities of US\$2.3 million in the cumulative nine months period of FY2016 (cumulative nine months period of FY2015: US\$6.1 million) was due mainly to US\$2.8 million proceeds from sale of investments.

Net cash provided by financing activities in the cumulative nine months period of FY2016 was not material (cumulative nine months period of FY2015: US\$2.7 million used).

13 VARIANCE FROM PROSPECT STATEMENT

There has been no significant variance in the operating performance of the Group in the third quarter of FY2016 as compared to the prospect statement disclosed in the announcement of results for the second quarter ended 31 December 2015.

14 PROSPECTS

The Group expects no significant change in the market conditions and revenue in this quarter is expected to be comparable to the current level. The Group expects to report an operating loss.

15 DIVIDEND

No dividends have been recommended in the third quarter of FY2016 and no dividends were recommended or declared for the same period last year.

16 INTERESTED PERSON TRANSACTIONS

The Group has not obtained a general mandate from shareholders for Interested Person Transactions.

BY ORDER OF THE BOARD

NG KEH LONG
COMPANY SECRETARY
5 MAY 2016

CONFIRMATION BY THE BOARD

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the interim financial information for the third quarter and cumulative nine months period ended 31 March 2016 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Sim Wong Hoo
Chairman

Lee Kheng Nam
Director